



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

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U.S. Embassy

Date:07/30/99

GAIN Report #JA9052

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Market Brief

Japan : Food Processing Sector - Western Confectionery Products

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Tokyo[JA1], JA

WESTERN CONFECTIONERY

OVERALL TRENDS

The Japanese confectionery market has been weak since the 1980's with sales declining since 1993 after the collapse of the bubble economy. Nevertheless, strong growth is expected in certain niches such as sugarless and diet products as well as confectionery that contain vitamins and other nutritional supplements. In 1997, total sales of confectionery products topped 546 billion yen (4.5 billion USD), a decline of 1.7 percent from 1996. The sales quantity in 1997 was 377,000 metric tons showing a growth of 3.7 percent from 1994. Domestic production of chocolate, candy and chewing gum accounted for 93% of the total confectionery supply in Japan, using mainly imported ingredients. Total domestic production fell from 391,400 metric tons in 1996 to 390,100 in 1997.

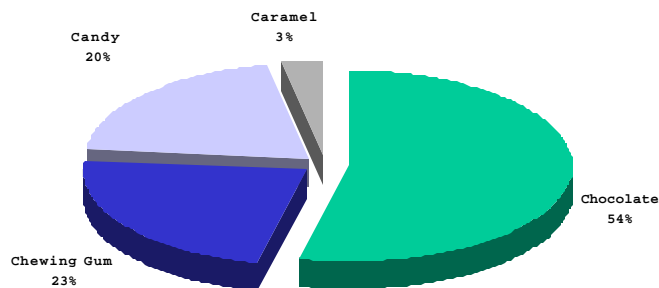
Five Major Players in Western Confectionery Market:

1. LOTTE
2. MEIJI SEIKA
3. MORINAGA SEIKA
4. FUJIYA
5. EZAKI GLICO

The slow growth in the confectionery sector is reflected by the fact that only two major manufacturers showed an increase in confectionery sales in 1997. Lotte's sales increased by 2.6 percent and Fujiya's grew by 1.2 percent.

Over the years, the Japanese confectionery market has been affected by a decline in the population of children, who are major consumers of confectionery. At the same time, Japanese consumers are becoming more health conscious and concerned with their diet and are looking for

Chart 1. Sales of Western Confectionery in Japan (1997)



sweet substitutes for sugar such as xylitol. Under these circumstances, confectionery manufacturers are focusing more on quality, health, hygiene and value and are increasingly targeting niche markets with lower volumes to increase competitiveness and meet consumer demand.

CHOCOLATE

Total sales volume of chocolate in 1997 was 198,000 metric tons, valued at 292 billion yen. The yen value of sales in 1997 was only 0.34 percent higher than in 1996.

The average annual growth rate over the next five years is expected to be approximately 0.5 percent. Japanese annually consume around 1.5 kilograms of chocolate per capita. This amount is much less than in the United Kingdom (9.2 kg) and the United States (5.5 kg), where chocolate is traditionally served as an after dinner dessert. The Japanese diet is centered on rice and most people prefer traditional Japanese confectionery or fruit for dessert.

Compared with candy and chewing gum, chocolate is still the most popular western

Table 1. Sales Volume and Sales Value of Western Confectionery in Japan

		Chocolate	Chewing Gum	Candy	Caramel	TOTAL
1994	Qty	181,000	44,000	122,500	18,850	366,350
	Value	¥277,000	¥115,000	¥117,000	¥17,700	¥526,700
1995	Qty	190,000	45,300	116,000	18,200	369,500
	Value	¥289,000	¥118,700	¥114,000	¥17,000	¥538,700
1996	Qty	195,500	44,700	114,000	18,000	372,200
	Value	¥291,000	¥117,000	¥112,000	¥16,800	¥536,800
1997	Qty	198,000	47,800	113,500	17,700	377,000
	Value	¥292,000	¥126,000	¥111,500	¥16,500	¥546,000
1998 (estimated)	Qty	199,000	48,300	113,000	17,500	377,800
	Value	¥292,000	¥127,500	¥111,000	¥16,300	¥546,800
2002 (estimated)	Qty	205,000	48,500	112,000	17,200	382,700
	Value	¥300,000	¥128,000	¥110,000	¥16,000	¥554,000

Note: Quantity (metric tons); Value (million)

Source: Food Marketing Series (Fuji Keizai, 1998)

confectionery, accounting for 53 percent of sales in Japan. Seasonal demand for chocolate increases at various times of the year. For example, on Valentine's Day women traditionally give *girichoco* (obligatory chocolate) to their male office colleagues and friends. One month later on "White Day" men return the favor by giving chocolate to women. This creates a strong demand for small and individually-wrapped chocolates in February and March. The industry also promotes chocolate sales during the holiday season in December.

The largest consumers of chocolate are junior high and high school students and women. Since most Japanese avoid very sweet items and prefer chocolates which do not leave an after-taste, light tasting milk chocolate is usually preferred. Lotte produces a popular light tasting chocolate called "White Mesh," which contains more cocoa butter and fresh cream and is made using powdered milk. It was one of the top 5 selling chocolates in 1997. The other top five selling chocolates in 1997 were Nestle's "Mini Kit Kat", Lotte's "Toppo", Glico's "Pocky Chocolate" and Meiji Seika's mushroom shaped chocolate.

As the number of children in Japan decreases, manufacturers are looking for ways to make their products more appealing to adults. For example, Meiji Seika has introduced chocolate products

targeting adult tastes by offering chocolate with whiskey and brandy filling.

Lotte introduced a health oriented marketing strategy by introducing "sugarless" chocolate in 1996. This product contains only sugar- alcohol and vegetable fiber as sweeteners, with a content of monosaccharides and bisaccharides of less than 0.5 percent. Lotte's "Zero" bar, which has 40% fewer calories than regular chocolate, has experienced steady growth.

Following the trend toward sugarless products, the Japanese Ministry of Health and Welfare approved xylitol as an ingredient in April of 1997. Since then it has become a popular ingredient in many products introduced in 1998. Xylitol is a crystalline alcohol derived from xylose, which is extracted primarily from birch bark. It is three times sweeter than sugar with far fewer calories. Xylitol is considered to be natural and healthy and is now widely used for sugarless confectionery, such as chocolate, gum and candy.

Imported chocolates accounted for only nine percent of the total supply of chocolate confectionery in 1997. The value of imports decreased from 17.7 million yen in 1996 to 16.7 million yen in 1997. However, almost 99% of the ingredients used in chocolate production are imported, such as cocoa beans and cocoa butter.

In most cases, the cocoa beans are ground and blended in Japan to obtain the preferable flavor and to assure quality. Japan also imports cocoa preparation, which is made from cocoa, sugar, and powdered milk and is mainly used as a raw ingredient in chocolate confectionery. Imports of cocoa and cocoa preparation increased significantly in 1996 reaching 214,308 metric tons. However, overstocking and lower than expected demand for chocolate have resulted in a decrease in imports of 30 percent in 1997 to 146,291 metric tons.

CHEWING GUM

Sales of chewing gum in 1997 were 47,800 metric tons, valued at 126 billion yen. Sales have shown an annual growth rate of two percent since 1994. The increasing demand in the chewing gum market can be attributed to the growing number of non-smokers and non-smoking locations in Japan, as well as the growing demand for gum as a stress reliever. Sales volume of chewing gum, including functional gum (e.g. gums to combat halitosis, dental care gums or "keep you awake" gums), which accounts for almost 50 percent of the total gum production, is expected to continue its 2-3 percent growth rate until the year 2002. Sales value in 2002 is estimated to reach 128 billion yen.

Stick chewing gum is the best selling type of gum. Sales of bubble gum and candy gum are not expected to grow as quickly because the target market is children, whose population has been declining steadily in recent years. The future trend for chewing gum will likely result in more diversification to functional gums. In addition, further variety can be expected including an increasing shift from stick to cube shape, more coated gum and an increasing demand for sugarless gum. Sugarless gums should continue to diversify from mint to fruit flavors, which have become popular recently. Production quantity of

sugarless gum increased by 25 percent in 1997, valued at around 10 billion yen.

Lotte has the largest share of the Japanese gum market, leading in the sale of specialty and flavored gums. As a market leader, the product introductions of Lotte tend to determine the direction of the whole market. Lotte's "Xylitol" gum series has become a hit product line helping pave the way for xylitol as an important ingredient. Lotte's new "Mint Blue" gum is now popular among young girls.

Ezaki Glico, a general confectionery maker, targets the adult market with its "Kiss Mint" series. Glico uses xylitol in its new "Xyli-dental" gum and in "Xylet," a fruit gum. The company's functional gum, "Diet," uses no-calorie erythritol.

Warner Lambert is also using xylitol and is continuing to develop the market for its well-known "Clorets" and "Trident" brands. Kanebo Foods has been successful with its "Hamigaki gum" (toothpaste gum) while Kabaya Foods recently introduced "Xyli-Cool" for children and "Xyrets" for adults. Xylitol is now widely used as an ingredient in sugarless gums rather than erythritol due to its price competitiveness.

Imported chewing gum only accounts for 1.4 percent of the total gum supply in Japan. The US is the largest exporter of chewing gum to Japan, followed by Korea, Spain and Colombia. Japan's domestic production of chewing gum in 1997 was 45,600 metric tons, up 3.2 percent from 1996.

CANDY

The candy market as a whole has been generally stagnant since the 1970's, as were other sectors of the confectionery market. The market rebounded in the 1990's because of an increased demand for functional candies such as menthol

candy, throat lozenges and herbal candy. The top four companies now compete in developing sugarless candy and, at the same time, follow the health trend by mixing in more vitamins and minerals into candy.

Total sales of candy in 1997 were 111.5 billion yen, a decrease of 0.3 percent from 1996. The size of the candy market, with the exception of throat lozenges, is expected to decline in the coming five years.

Lotte's throat candy series was one of the top products in 1997. These candies contain herbs, carrot and other extracts. Kanro's throat candy is also popular, especially for its sugarless concept. It contains xylitol as a sugar replacement.

In addition to throat candy, milk candy is also popular with Japanese consumers. Meiji Seika's "Chelsea Mix", Yuhamikakuto's concentrated milk candy and Morinaga's "High Soft Asort" were among the top products in 1997. The main ingredients in these products are butter, caramel, powdered cream, fresh cream, condensed yogurt and vegetable oil.

Total candy imports in 1997 were 8,000 metric tons. Although there was a slight increase in imports from 1996, imports only accounted for about 4.9% of the market. Japan imports candy mainly from the Netherlands, Spain and the United States.

CARAMEL

The sales volume of caramel in 1997 was around 17,700 metric tons, valued 16.5 billion yen. Both sales volume and value are estimated to decrease by 3 percent by 2002. From the total supply of caramels in Japan, milk caramels account for 50 percent, while the rest is divided among yogurt, coffee, and green tea.

Since the caramel market in Japan is already relatively saturated, domestic manufacturers are focusing more on new product development to meet market trends. As a result of the trend toward more health-oriented and sugarless products, Morinaga Seika introduced "sugarless caramel" in 1997.

Glico is the leading manufacturer of caramel followed by Morinaga and Meiji Seika. Morinaga's "High Soft" and "Milk Caramel" were among the top three products in 1997. Together with Meiji Seika's "Cream Caramel," they are all long selling products in Japan.

With the stagnant caramel market in Japan, few imported caramels have penetrated the market. In 1995 Japan imported 184 metric tons of caramel, accounting for only one percent of total caramel supply. Taiwan and the United States are the major exporters of caramel to Japan.

IMPORT TRENDS

The import of final confectionery products is unlikely to increase because of Japanese taste preferences and imports high prices. Imported chocolates are considered too sweet by Japanese consumers, while the caramel market offers few opportunities because of the lack of new products being introduced. Low price, variety, health-orientation and seasonality are all important factors to consider to be competitive in the Japanese market.

However, since Japan imports almost all the ingredients used in the production of confectionery products, there are many opportunities for exporters of ingredients. Sugar, wheat, vegetable oil, fat and starch are main ingredients used in confectionery along with additional ingredients for flavoring such as milk products, nuts, yogurt, fruits, tea, herbs, and cereal products are potential import products of

Table 2. Import of Confectionery and Ingredients used in Confectionery (1995 - 1997)

	Value (yen million)			Volume (metric tons)			Tariff Rate
	1995	1996	1997	1995	1996	1997	
Cocoa (total)	29,336	42,850	45,528	174,294	214,308	146,291	free
- Cocoa beans	6,333	8,704	9,973	40,996	49,649	49,338	free
- Cocoa butter, fats and oil	4,839	7,171	8,352	12,898	16,096	16,609	0.80%
Raw Sugar	57,166	57,558	60,700	1,730,506	1,651,086	1,697,444	76.03 yen/kg
Wheat	102,546	137,409	133,736	4,862,411	4,775,407	5,144,679	0 - 58.3 yen/kg
Starch	5,800	6,497	6,232.5	142,411	145,371	133,944	25%
Dextrin	18,124	21,602	20,287	281,434	282,163	268,744	7.20%
Edible Nuts (total)	32,073	40,224	39,984	84,078	79,153	75,904	0 - 14.7%
- Almond	9,787	13,213	12,303	22,620	17,981	18,531	2.90%
- Macadamia	1,097	1,417	1,872	1,315	1,300	1,529	7.30%
Dried Fruits	9,746	11,412	13,475	52,902	52,638	55,265	2.7 - 34.7%
- Raisins	4,245	5,327	5,581	29,243	30,819	27,970	1.50%
End Products							
Candy	4,391	3,379	4,616	8,855	6,426	8,095	28.30%
Chocolate	16,228	17,715	16,678	13,363	15,790	15,290	16.70%
Chewing Gum	1,746	1,493	1,131	804.7	884.5	639.4	26%

Source: Japan Exports and Imports 1997

interest to Japanese confectionery producers.

RAW SUGAR: On a volume basis, imports of raw sugar showed a decrease of 4.6 percent in 1996 and a slight increase in 1997 (3 percent). Total imports in 1997 were 1.6 million metric tons (65 percent of the total supply). Annual per capita consumption of raw sugar in Japan is 19.38 kg (1995) with total demand in the 2.5 million ton range. Around 24.9 percent of the total supply of raw sugar in Japan goes to the confectionery industry (600,000 metric tons). Australia, Thailand, South Africa and Cuba are the main exporters of raw sugar to Japan.

WHEAT: More than 90 percent of the total wheat supply in Japan is imported. In 1997 total imported wheat equaled approximately five million metric tons, which did not include durum wheat for pasta and wheat for animal feeding purposes. Per capita consumption of wheat in Japan is around 33 kg/ year (1994). The main exporters of wheat to Japan are the United States, Canada and Australia.

The volume of domestically grown wheat has been declining in recent years due to increased planting of early rice crops and the easing of programs to encourage rice farmers to convert to other crops. The government imports wheat to supplement the domestic wheat crop and to source wheat varieties that are not available in Japan.

ALMONDS: Almonds were the first of the western nuts introduced to Japan. Japanese consumers are very familiar with almonds due to their use in almond chocolate. Almonds also have an image as a high class nut. The main user of almonds is the confectionery industry with nearly 40% of demand for almonds coming from chocolate manufacturers. Recently, almonds have been recognized for their nutritional value in terms of the high quality of their protein, calcium, iron and vitamins. Uses for almonds have also diversified and are now used in snacks and noodles.

Almonds are imported in the form of whole nuts and blanched processed nuts. Seventy percent of the imports consist of whole almonds and the

remaining 30 percent are blanched nuts. Whole nuts are mostly used for chocolates and mixed nuts, while blanched nuts mainly go to bakeries.

HAZELNUTS: Hazelnuts are used as table nuts in mixed nuts and are used also for chocolates. However, chocolate manufacturers are cautious about the aflatoxin in hazelnuts and the fact that the nuts turn brown within a short period of time after they are shelled. Unfamiliar with hazelnuts, Japanese consumers believe that this coloration means the nuts are not fresh, thus hindering their popularity in Japan.

MACADAMIA: Hawaiian macadamia nuts are well known and mostly used for chocolates and candies. Specialized high class chocolate manufacturers like to use macadamia nuts.

CHESTNUTS: The demand structure of chestnuts is very different from that of other nuts. There is a high demand for sweetened, freshly roasted chestnuts known as “Tianjin sweet chestnuts.” Large amounts of chestnuts are also consumed for traditional Japanese-style confectionery and Japanese cooking.

PRUNE EXTRACT: Prune extract has a strong image as a health food among consumers. Consumers have recognized prunes as a good source of fiber and iron.

INGREDIENTS

CHOCOLATE:

Chocolate, cocoa, white chocolate, cocoa butter, sugar, milk, cacao mass, almond, lecithin, anhydrous milk fat, lactose, soya, an emulsifier, vanilla, wheat flour, niacin, reduced iron, vegetable oil, high fructose corn syrup, corn flour, salt soya lecithin, fresh cream, powdered milk, cocoa powder, cinnamon, raisin, margarine, extracted tea powder, dried fruits (prunes), nuts (walnuts, almond, hazelnuts, macadamia).

CHEWING GUM

Sugar, corn starch, vegetable oil, lecithin, gelatin, grape sugar, starch syrup, vegetable wax, flavor (xylitol, mint, vitamin C, palatinose, erythritol).

CARAMEL

Sugar, starch, vegetable oil, flavor (caramel, orange, strawberry, cherry, apple, lemon).

CANDY

Sugar, starch, vegetable oil, flavor (mint, fruits, cola, soda, sorbitol, erythritol, vitamin C, milk, yoghurt, chocolate, coffee), herb extract, butter, fresh cream.

This report is in the series as follows:

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